

Community Improvement Districts



LOCAL POLICY REVIEW

2-09-2010

Community Improvement Districts (CID)



- Allows cities or counties to assist real estate developers without jeopardizing tax base
- Places burden of financing on the specific real estate development project:
 - Special sales tax (up to 2%)
 - Special assessment property tax
- Local policy needed to address broad authority

CID Method of Financing

Similar to TIF & TDD



- **Special Obligation Bonds**
 - Secured solely by special CID revenues
 - Difficult to place
- **Full Faith and Credit Bonds**
 - General obligation
 - Easy to place
- **“Pay-As-You-Go”**
 - Pass-through to developer
 - Generally used to repay private financing

CID Permitted Uses Under Law



- Full scope of private development costs
 - Land, buildings, structures and facilities
 - Site improvements and infrastructure
 - Parking garages
 - Streetscape
 - Parks, lawns, trees and other landscaping
 - Info booths, bus stops, stations, terminals, etc.
 - Public art
 - Airports, railroads, mass transit facilities
 - Water features (lakes, dams, drainage, etc.)
 - City administrative fee (up to 5% of project cost)
 - On-going operating costs (security, events, mktg., etc.)

CID Authorization Process

Similar to Special Assessment and TDD



- Petition Process
 - 100% required for special assessment taxes
 - 55% for special sales tax (TDD = 100%)
- Public Hearing required for less than 100% petitions
- City Council adopts resolution that sets public hearing or makes finding of advisability
- Publication twice and mailing to landowners before hearing
- City Council passes ordinance that establishes CID and levies special CID tax
- Maximum 22-year term of tax

CID Policy Issues



- “Gap” Financing Requirement – financial need analysis
- Method of Financing – bonds vs. pay-as-you-go
- Eligible Project Costs – capital vs. operating
- Types of Projects – law contains no limits
- Authorization Process – petitions and hearings
- Minimum Project Size – law contains no limits
- Early Termination – not addressed in law
- Sources of Funding – sales tax and special assessments

“Gap” Financing Requirement



Manager’s Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation
<p>+ CID should be used for gap financing</p> <p>+Banks used to do 70% loans, they are now 60%, it makes sense to use CID to cover gap</p>	<p>+ROI and gap ok if City is bonding, but not for pay-as-you-go</p> <p>-Gap restricts, CID is a good tool to use when you don’t know what you’re going to develop</p> <p>-Gap requirement is not needed, developments need flexibility in use (may need to use funds for special commitments w/a tenant like security or events)</p> <p>-Developer is choosing to be taxed, there is no need to demonstrate a gap</p> <p>-There’s a reason law did not require gap, this was designed to save development</p> <p>-City wants to control a project even when it has no involvement or responsibility in the project</p>	<p>•Use CID only for projects which would not otherwise be possible without the use of CID funding</p>
<p>•Remain consistent with Economic Development justifications: incentive is needed (“but for”), serves a public purpose and has a positive fiscal impact</p> <p>•Public funding should be based on substantial information</p> <p>•Taxation (even special taxation) is a non-delegable public responsibility</p>		

1.3 Benefit Ratio Requirement

Manager's Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation
<p>-Mixed use projects will be difficult to reach 1.3</p> <p>-Remove 1.3 ROI</p>	<p>+Public should be educated about CID but responsibility of project is all developer</p> <p>-ROI does not make sense. Return is infinite because City has no costs</p> <p>-City has no costs except when bonding</p> <p>-Pay as you go has very little City involvement</p> <p>-Developers are struggling: Some deals include giving away land, although it is seen as activity it doesn't mean a project is generating money</p> <p>-ROI makes sense on other incentives that deduct from ad-valorem taxes, CID does not take anything away from taxes</p> <p>-This is free market – a consumer votes by deciding whether to go to development</p>	<p>•Use WSU cost/benefit analysis that shows 1.3 ratio of benefit to public costs</p>

- Economic Development incentive
- Public/private funding mechanism
- Possibility exists that there will be a need for additional public assistance
- Data provides performance measures

Method of Financing



Manager's Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation
<ul style="list-style-type: none">+ Flexibility is good- All 3 are tools, some larger projects may need GO- Public criticism should not determine a projects validity- Will require additional staff time to meet with lenders for their understanding	<ul style="list-style-type: none">+ GO should be available as an exception, if community benefit is demonstrated (public improvement)+ This is just a policy, not a statute	Pay-as-you-go (preferred) or Special Obligation Bonds (no G.O.)

- Program funds essentially private enterprise
- GO financing puts the City at risk
- Must conform with current City Special Assessment policy

Eligible Project Costs



Manager's Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation
<p>+Ok not to include operating costs</p> <p>+ A project isn't good if it can't support operating costs</p>	<p>-If project produces additional revenue, revenue could be used to increase marketing, increasing tax revenue for City and State</p> <p>-Using for operating costs in some situations can influence lenders willingness to finance a project</p> <p>-Use of Pay-as-you-go should be more flexible</p> <p>-Operating costs can help a pro-forma/ financing</p> <p>- Limiting use restricts options and affects competition with surrounding cities</p> <p>- Monitoring expenses creates additional staff costs</p>	<p>•Capital costs only (no on-going operating costs)</p> <p>•<i>Allow all costs: in an amount equal to the needed capital costs</i></p>

- Most projects will have capital costs to absorb all CID funds
- Developers may find more benefit in using CID for operations in lieu of capital
- Gap is easier to measure on capital

City Administration Fee



Manager’s Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation										
<div>+ City admin fee should be flat, not percentage</div> <div>-Fee sounds like revenue generation for the City</div> <div>- Consider a sliding scale fee based on project size</div>	<div>+ A sliding scale or flat fee is a better option</div>	<div>•Up to 5% City admin fee negotiated in development agreement</div> <div>•Non-refundable petition application fee of \$5,000</div> <div>•Sliding-scale fee schedule (credit given for petition fee):</div> <table><thead><tr><th><u>Total Project Cost</u></th><th><u>City fee*</u></th></tr></thead><tbody><tr><td>• First \$5,000,000</td><td>-- 5%</td></tr><tr><td>• Next \$5,000,000</td><td>-- 4%</td></tr><tr><td>• Next \$10,000,000</td><td>-- 2%</td></tr><tr><td>• Over \$20,000,000</td><td>-- 1%</td></tr></tbody></table> <div>* Percentage CID tax revenue</div>	<u>Total Project Cost</u>	<u>City fee*</u>	• First \$5,000,000	-- 5%	• Next \$5,000,000	-- 4%	• Next \$10,000,000	-- 2%	• Over \$20,000,000	-- 1%
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- Full 5% fee difficult to justify on large projects
- Petition fee assures project is ready for City Council and staff consideration

Types of Projects



Manager's Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation
<ul style="list-style-type: none"> -A residential greenfield may have extra cost beyond infrastructure that needs CID - Should consider residential multi-family outside of CDB - Multi-family projects are not feasible w/out assistance 	<ul style="list-style-type: none"> +Add residential on an exception basis -Some features of residential projects (pools or landscape berms) cannot be financed through traditional SA financing, they can benefit from CID 	<ul style="list-style-type: none"> •Commercial, industrial and mixed use (with standard city exclusions including single family)
<ul style="list-style-type: none"> •Single family does not need CID, a tool is already in place •Projects are self-limiting with special assessment only 		

Authorization Process



Manager's Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation
+ 100% is ok for sales tax	+CID can be larger than actual project -Must have 100% petitions - CID funds only good w/in CID, sometimes need to pay for work on a Right of Way outside the CID and don't have 100% ownership -Land assemblage: May need CID money to buy holdout property outside of district, a homeowner can hold you up by not signing to be in district	•100% petitions for all CID projects •100% petitions not including Right of Way

- Process is needed for adding property later
- Unfair to coerce unwilling neighbors
- Petition and applications – app can be used for non-statutory submittal requirements
- 2 Step process – 1. Petition & application 2. Development Agreement

Authorization Process



Manager's Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation
	<ul style="list-style-type: none">-Should be consent like other special assessments, Council can pull for discussion-Public hearings create wait time-Should not have public hearing for 100% petition – it is not required by legislature-Public hearing should not be needed; you are only taxing self	<ul style="list-style-type: none">•Public hearings for all CID projects

•Public hearing needed for transparency

Minimum Project Size



Manager's Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation
<p>-Market can/should dictate the size of project</p>	<p>- Pay-as-you-go should be lowered to \$500,000 – if a small project needs it, the tool should be available</p> <p>-Emphasis should be on viability, not project size</p> <p>-Do not look at historic performance for determining rules, look ahead to what projects will need</p> <p>-Statute did not place limits, why should City</p>	<p>•Projects with total costs (not just CID) of not less than \$1,000,000 for pay-as-you-go or \$5,000,000 bonded</p> <p>•\$500,000 pay-as-you-go or \$2,000,000 bonded in neighborhood plans areas and NRA</p>

- Incentivizes pay-as-you-go
- Sets realistic limits
- Provides flexibility for targeted areas

Early Termination & Look Back



Manager's Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation
<p>+1-2 years is ok for look back</p>	<p>+Pay-as-you-go is not an issue</p> <p>-Look back and most other disputed staff recommendations would be a non-issue if you eliminate gap requirement</p> <p>- CID should run for full 22 w/option to terminate @ developer's request</p> <p>-May have to sign 20+ year lease with operating cost requirement, CID should be allowed the continued flow to cover expense</p> <p>-Banks look at cash flow, early termination may affect ability for future financing/ refinancing</p> <p>-Look back too short. Some projects take longer to assemble property.</p>	<p>•Termination of CID when revenue collected has paid all project costs established in development agreement</p> <p>•1-year look-back</p> <p>•2-year look-back for land acquisition only</p>

- Tied to gap financing– need to know what is being financed
- Allows reimbursement of reasonable costs related to project
- Safeguard against fraud

Sources of Funding



Manager's Developers Advisory Council	Stakeholders and Interested Parties	Staff Recommendation
+ Both sources give many options	+ Like the ability to use both in CID projects +Developer can decide based on the project	Staff recommends both SA and sales tax